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SUBJECT: TRADE OFFICIAL ON GOE ECONOMIC REFORM, TRADE STRATEGY,
US-EGYPT BILATERAL TRADE RELATIONS

Sensitive but unclassified. Please handle accordingly.

1. (SBU) SUMMARY: In a November 13 meeting with Commerce DAS for Services Mark Brady, Ministry of Trade and Investment First Advisor Samiha Fawzy said that Egyptian was not interested in a new bilateral investment treaty (BIT) with the U.S., and that Egypt must "maintain the FTA as an overall objective for political reasons." She said Egypt's priority is to expand their markets beyond the U.S., EU and the region. Fawzy said Egypt's new focus is on improving trade relations with India, South Africa and Brazil. Fawzy's comments echo recent public remarks by former Egyptian Ambassador to the US Nabil Fahmy, in which he said the incoming Administration and Congress were unlikely to make FTA negotiations a priority, and that Egypt's trade and investment relationship with the U.S. was successful even without an FTA. Based on Fawzy's other remarks, and the attitude of other GOE contacts, however, the GOE wants to work with the USG to address outstanding trade and access issues such as IPR, agricultural, and standards on a more practical level. If we do wish to re-engage on trade within a formal structure, we may need to re-package TIFA or the US-Egypt Business Council into a new format so as to gain GOE support.
END SUMMARY

2. (SBU) On November 13, visiting Commerce DAS for Services Mark Brady and Office Director for Services R.J. Donovan met with Ministry of Trade and Industry (MTI) First Advisor Samiha Fawzy to discuss bilateral cooperation on trade, progress on economic reform and Egypt's overall trade strategy. MTI's Mona El Garf, along with Commercial Attache and econ counselor (notetaker) also participated. DAS Brady raised two ongoing issues, a problem Coca Cola has encountered with a former bottler continuing to produce under the Schweppes label, and concerns that Nike has expressed about Egyptian labeling requirements (septel).

3. (SBU) Fawzy opened by saying the Government of Egypt (GOE) has made a lot of progress on economic reform, is on the right track, but needs to do more. Social and cultural changes necessary for real success, she said, including eradicating illiteracy and poverty, remain a challenge. She described the need to convince people that a free market is good, to encourage Egyptians across the economic spectrum to participate in the market, and to make sure positive results are felt by everyone. In Fawzy's view, much of the country is still caught in the past fifty years of socialist policies. The government, she said, also has to look more closely at the question of managing and sequencing of the reforms. She cited the need for the media to play bigger role in educating the public. "We were not doing enough on this," she observed.

4. (SBU) According to Fawzy, the GOE is considering a package of quick reforms to regain momentum. She acknowledged that the reform process had been drifting in recent months, but that it is now essential to move forward. The package includes a commitment not to raise energy prices, either for fuel or electricity, through

end-2009. Also, the GOE wants to focus on raising overall productivity and finding ways to promote exports, provide incentives for export-linked jobs, and support Egyptian participation in international exhibitions.

15. (SBU) In terms of the impact of the financial crisis, she said that the Egyptian banking system is sound, and that recent rating agency reports support the GOE contention that there are no serious problems in the banking sector. This, she said, gives Egypt hope that investment from the Gulf will continue. MTI Minister Rachid has been in the Gulf for the past two weeks to promote continued investment by the sovereign wealth funds in Egypt. When asked about the impact of the crisis on growth, she noted the Central Bank is "running different scenarios" had not yet shared them with the rest of the government. She said the GOE is still hoping that impact will be limited to a reduction in growth from 7 to 5 percent in the 2008-09 period.

Egypt's Trade Strategy

16. (SBU) The GOE also is working to diversify beyond its traditional partners, the U.S., Europe and the region. Egypt's new strategy focuses on India, South Africa and Brazil. President Mubarak and Minister of Trade Rachid were in India the week of November 16 and signed an economic cooperation framework agreement, as well as cooperation agreements on SMEs, and technical transfer. Egypt is talking to MERCOSUR about an FTA, with Brazil in the lead on the MERCOSUR side. In December, Rachid will travel to South Africa, and is also looking to increase trade with Sudan and Nigeria. Egypt, Fawzy said, has successfully expanded trade with Russia and central Asian states such as Kazakhstan. FTA negotiations with the EU continue and, Fawzy said, are focused on services. The EU has identified the key sectors of finance,

telecommunications, computer services, postal and courier services, maritime and transport and e-commerce. The GOE does not have a final negotiating list, but is interested in distribution, transportation and infrastructure and storage.

US-Egyptian Trade Relations

17. (SBU) In response to a question about cooperation with the United States, Fawzy cited the success of the QIZ agreement. This agreement, she said, was a "good step," both for trade and the region. She said the exports under the QIZ allowed Egyptian workers and their families to realize real economic benefits from the peace process. Fawzy reiterated Egypt's request for QIZ expansion to Upper Egypt, noting that this was the poorest and most vulnerable region of the country. She said investors are not interested in going there, despite government investment incentives, and that the additional impetus provided by a QIZ-like arrangement was needed.

18. (SBU) Fawzy also suggested that the U.S. and Egypt work together to promote investment but was adamant that this did not mean that Egypt was interested in negotiating a BIT. She said that a BIT was not in Egypt's interest, that the GOE would not negotiate a new BIT outside an FTA, that there was no "logic" to this and that BIT negotiations had been "refused" by the government. Her comment was that the U.S. and Egypt had been talking seriously about an FTA and that politically the GOE "cannot lower its ambitions." She said that Egypt must "maintain the FTA as an overall objective for political reasons" and cannot go to the public and say that Egypt would do a BIT instead. She expressed appreciation for the QIZ program, and access to U.S. markets for Egyptian goods through GSP.

When asked if there was any particular sector among the fourteen covered by the TIFA agreement that Egypt would be interested in discussing, she was adamant that Egypt was not interested.

19. (SBU) On the other hand, Fawzy said, Egypt wants to work with the U.S. on more concrete issues, such as franchising. She would like to see a new franchise law for Egypt to facilitate the entry of new companies. The ministry has already assembled a team that includes legal, private sector and government representatives, and plans a public awareness effort. In her view, franchising would improve service delivery, and the overall efficiency of the internal Egyptian market. She sees improved services, including distribution, logistics, transportation, the supply chain and storage, as an important input into the productive sector. Egypt's

current distribution and transportation network is limited and expensive. Due to a lack of market structure and competition, prices are higher and goods are scarcer outside Alexandria and Cairo than they should be. The limits of the network also affect the ability of potential producers in Upper Egypt to get goods to market. A more efficient internal market, the GOE believes, will help the average Egyptian benefit from reform.

¶10. (SBU) COMMENT: Fawzy's comments about formal trade negotiations echo remarks made publicly a few days ago by recently returned Egyptian Ambassador to the U.S. Fahmy. In a speech to the AmCham, Fahmy said that the incoming Democratic Administration and Congress were unlikely to make any FTA negotiations a priority, and that Egypt's trade and investment relationship with the U.S. was highly successful even without an FTA. Other GOE officials have told us that Egypt is not interested in a BIT at this time. Fawzy's comments to us last week were the most definitive and detailed explanation we have had on precisely why the GOE is not interested in formal negotiations, short of an FTA. If we do wish to re-engage on trade within a formal structure, we may need to re-package TIFA or the US-Egypt Business Council activities into a new format so as to gain GOE support.

¶11. (SBU) COMMENT CONT: In the meantime, the GOE is willing to work with the USG to address outstanding trade and access issues on a more practical basis. For example, we continue to engage on IPR issues within the context of the Watch List process. MTI is talking to USAID-funded technical experts about market access issues such as the labeling requirement that Nike has complained about (septel). Fawzy acknowledged Egypt is under pressure from the EU to bring its trade and regulatory regime closer to the EU acquis, but said Egypt did not want to limit itself and continue to focus instead on international, rather than European, standards. USAID and FCS are involved in this effort to maintain access for U.S. goods, including by supporting cooperation between the American National Standards Institute (ANSI) and the new Egyptian standards agency. In the agriculture sector, we are gaining additional access for more food-related products as we chip away at technical barriers, including live dairy cattle, whole chickens, and poultry byproduct meal (for cattle and poultry feed). USG support for Egypt's new food safety agency, which will base its evaluations on a risk-management approach, rather than on the precautionary principle, has helped.